UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

Distr.
GENERAL

E/ECA/CM.12/32
8 April 1986

Original: ENGLISH

ECONOMIC COMMISSION FOR AFRICA

Seventh meeting of the Technical Preparatory Committee of the Whole

Yaounde, Republic of Cameroon, 7 to 14 April 1986

Item 12 of the provisional agenda*

ECONOMIC COMMISSION FOR AFRICA

Twenty-first session of the Commission/ Twelfth meeting of the Conference of Ministers

Yaounde, Republic of Cameroon, 17 to 21 April 1986

Item 6 of the provisional agenda*

LC/NAIROBI

REPORT OF THE THIRD MEETING OF THE INTERGOVERNMENTAL GROUP OF EXPERTS FROM MINISTRIES OF FINANCE, CENTRAL BANKS AND LEGAL DEPARTMENTS ON THE ESTABLISHMENT OF AN AFRICAN MONETARY FUND

* E/ECA/TPCW:7/1
E/ECA/CM.12/1

A. INTRODUCTION

1. The third meeting of the Intergovernmental Group of Experts from Ministries of Finance, Central Banks and Legal Departments on the Establishment of an African Monetary Fund was held in Yaounde, Cameroon, from 2 to 5 April 1986. The purpose of the meeting was to review the outstanding issues relating to the establishment of an African Monetary Fund which were unresolved during the second meeting held in Addis Ababa from 11 to 15 April 1985 and the Draft Articles of Agreement. The meeting also considered the progress report on the preparations for an International Conference on Africa's External Indebtedness.

B. ATTENDANCE

2. The meeting was attended by experts from Ministries of Finance, Central Banks and Legal Departments of the following 21 countries: Algeria, Benin, Cameroon, Chad, the Congo, Egypt, Guinea, Kenya, Malawi, Mauritius, Morocco, Nigeria, Rwanda, Senegal, the Sudan, Togo, Tunisia, Uganda, the United Republic of Tanzania, Zaire and Zimbabwe. Representatives of the Banque de l'Afrique de l'Ouest (BCEAO), the Banque des Etats de l'Afrique centrale (BEAC), the Banque Ouest-africaine de developpement (BOAD), the ECOWAS Fund and the International Monetary Fund attended the meeting as observers.

3. The meeting was serviced by a joint secretariat composed of the representatives of the Economic Commission for Africa (ECA), the African Development Bank (ADB), the African Centre for Monetary Studies (ACMS) and the Organization of African Unity (OAU).

C. OPENING OF THE MEETING

4. The opening ceremony was presided over by the Head of the Egyptian delegation in his capacity as outgoing Chairman.

5. Mr. M. Tchouta-Mousa, the Deputy Executive Secretary of the Economic Commission for Africa made an opening statement on behalf of the Executive Secretary who could not be personally present. In welcoming delegates to the third meeting, he expressed ECA's appreciation to the Government and people of Cameroon not only for agreeing to host the meeting but also for their warm hospitality. He also thanked the delegates for responding to the invitation to attend the meeting. He pointed out that their presence was a testimony of the importance which their Governments attached to the establishment of an African Monetary Fund. He also expressed similar sentiments to the Organization of African Unity, the African Development Bank, the African Centre for Monetary Studies and the African Institute for Economic Development and Planning for the valuable co-operation which they had given to the Economic Commission for Africa in the preparatory activities.

6. He then went on to inform the meeting that the Heads of State and Government of the OAU summit in 1980 viewed the establishment of an African Monetary Fund as one of the strategies designed to accelerate economic and social development in the African region through effective monetary and financial co-operation. Since 1980 the monetary and financial situation had deteriorated seriously because of a number of factors such as: (a) the absence of a unified monetary system in the African region; (b) the fact that national currencies had not achieved any degree of autonomy as they were pegged to one or the other of the world's major currencies; and (c) non-existent and limited national money markets coupled with a low degree of monetization. He furthermore pointed out that it was against such a background that an African Monetary Fund was being created in order to assist African countries in dealing with monetary and financial problems. Moreover, the Fund, when created, would provide balance-of-payments support and finance intra-African trade, provide consultative machinery on all monetary and financial matters at the African region with a view to evolving an African monetary system through monetary and financial co-operation among African countries, whereby those countries would strive towards harmonizing their monetary, currency and exchange policies and practices as well as designing appropriate external debt management systems.

7. Turning to other agenda items, he pointed out that the meeting was also expected to consider the progress report on the preparations for the proposed International Conference on Africa's External Indebtedness called for by the twenty-first summit of OAU in July 1985.

8. In his opening statement, the representative of the Secretary-General of OAU, Dr. Djomatchoua Toko expressed thanks and gratitude to the Government and people of Cameroon for the cordial reception, and the excellent arrangements for the meeting. He informed the meeting that the Secretary-General of OAU was tied up with previous commitments in connection with the preparations for the special session of the United Nations General Assembly which would be discussing the critical economic situation in Africa.

9. On the issues before the meeting, the OAU representative stressed the seriousness of Africa's external indebtedness, capital participation of non-African countries in the African Monetary Fund, whether or not national currencies should constitute part of the Fund's capital resources, and the composition of the Executive Board. He said that it was incumbent on the experts to submit clear recommendations on all the outstanding issues in order to facilitate the work of the Ministers later in the year. The establishment of the Fund, he said, was important in the context of implementing the Lagos Plan of Action, and in strengthening intra-African monetary co-operation as called for in Africa's Priority Programme for Economic Recovery, 1986-1990.

10. On the proposed International Conference on Africa's External Indebtedness, the OAU representative referred to the meeting of the secretariats of ECA, ADB, ACMS and OAU, the report of which was submitted to the meeting.

He explained the general objectives of the proposed conference and called on the experts to be clear in their recommendations.

11. In conclusion he recalled the close co-operation that had existed between OAU and ECA in institution-building, and hoped that the establishment of the Fund would mark another milestone in the area of intra-African co-operation.

12. In opening the third meeting of the Intergovernmental Group of Experts from Ministries of Finance, Central Banks and Legal Departments, His Excellency Mr. Tikela Kemone, Secretaire d'Etat in the Ministry of Finance of the Republic of Cameroon, speaking on behalf of His Excellency Mr. Paul Biya, President of the Republic of Cameroon, welcomed the delegates to the meeting and assured them of his Government's support in ensuring the success of the meeting. He informed the meeting that his Government attached great importance to the establishment of an African Monetary Fund and in particular to the meeting of experts, by stressing the following: firstly, the establishment of an African Monetary Fund was in accordance with the decision of the Heads of State and Government of the Organization of African Unity contained in the Lagos Plan of Action; secondly, the creation of an African Monetary Fund was envisaged as a strategy designed to improve Africa's monetary and financial situation at the regional and international levels; and thirdly, because the agenda included an item on the preparations for an International Conference on Africa's External Indebtedness, an issue that featured prominently in Africa's Priority Programme for Economic Recovery, 1986-1990 adopted by the twenty-first Assembly of Heads of State and Government of OAU in July 1985.

13. He informed the meeting that the international economic situation, in particular the financial and monetary environment, was hostile and Africa was adversely affected by recent developments. The consequences of both internal and external developments and the debt-servicing crisis, worsening of balance-of-payments deficits and the decline in the flows of official development assistance were emphasized. The collapse in the commodity prices due to the world economic recession and increase in real interest rates in the early 1980s greatly contributed to the problems that Africa was experiencing today.

14. In conclusion, the Honourable Secretary of State for Finance called upon the meeting to help in resolving outstanding issues so that an African Monetary Fund could be established. In this connection, he hoped that the draft Articles of Agreement before the meeting would be seriously considered by experts and be submitted to the forthcoming Conference of Ministers of Finance and Governors of Central Banks to be held in Libreville in June 1986.

D. ELECTION OF OFFICERS

15. The meeting elected the following countries to constitute the bureau:

Chairman	Cameroon
First Vice-Chairman	Togo
Second Vice-Chairman	Zimbabwe
Third Vice-Chairman	Tunisia
Rapporteur	United Republic of Tanzania

E. ADOPTION OF THE AGENDA AND ORGANIZATION OF WORK

16. The meeting adopted the following agenda:

1. Opening of the meeting.
2. Election of officers.
3. Adoption of the agenda and organization of work.
4. Review of outstanding issues and the report of the second meeting of the Intergovernmental Group of Experts.
5. Review of the draft Articles of Agreement on the establishment of an African Monetary Fund.
6. Consideration of the progress report on the preparations for an International Conference on Africa's External Indebtedness.
7. Any other business.
8. Adoption of the report and closure of the meeting.

F. ACCOUNT OF PROCEEDINGS

17. Before considering the substantive items on the agenda, the issue of a quorum was raised and discussed at some length. The meeting held the view that since the meeting of experts was intended to prepare a draft of the Articles of Agreement and make recommendations to the Conference of Ministers of Finance and Governors of Central Banks, the question of a quorum should therefore not impede the proceedings of the meeting. The report of the meeting will be sent to all member States in the usual manner. Another meeting of experts will precede the Conference of Ministers of Finance in Libreville, Gabon, in June 1986.

Review of outstanding issues and the report of the second meeting of the Intergovernmental Group of Experts on the Establishment of an African Monetary Fund, (agenda item 4)

18. A representative of the secretariat, in introducing this agenda item, referred to the report of the second meeting of the Intergovernmental Group of Experts on the establishment of an African Monetary Fund (E/ECA/CM.11/76)

and pointed out that there were three outstanding issues from the second meeting of the Intergovernmental Group of Experts namely: whether or not to allow external participation in the capital of the Fund and, if so, in what proportion; secondly, whether or not contributions to the capital should be made in both convertible and national currencies; and the number of the Executive Directors to be appointed to represent the African countries in the Fund. He pointed out that the purpose of this agenda item was not to reopen the debate but merely to find out if there were any new developments since April 1985, in the absence which, the issues would be referred to the Conference of Ministers of Finance as recommended by the second meeting. He also pointed out that certain issues discussed during the second meeting, such as the allocation of subscriptions to the capital of the Fund and the exchange rate and exchange control policies of African countries (E/ECA/TRADE/37 and E/ECA/TRADE/38), were to be re-examined by the secretariat and submitted to the next meeting of experts for consideration.

19. During the discussion that followed, it was agreed that all the above outstanding issues in question should be referred to the Conference of Ministers in June 1986.

20. With regard to the number of Executive Directors, the meeting felt that the Fund should start with a small number and expand the Executive Board in response to the expansion of the operations of the Fund. The issue of the scope and size of the Fund was also discussed and it was pointed out that this was closely related to the subscribed capital of the Fund. It was suggested that with an initial capital of 500 million African Units of Account (AUA), the size of the secretariat would be small and the Executive Directors would be non-resident during the initial years. After a lengthy discussion, the meeting agreed that this issue should also be referred to the ministerial conference.

Review of the draft Articles of Agreement establishing an African Monetary Fund (agenda item 5)

21. In introducing this agenda item, a representative of the secretariat referred to the paper entitled "Draft Articles of Agreement of the African Monetary Fund" (document E/ECA/TRADE/41) and apologized for not being able to distribute the document early. This delay was due to the fact that originally it had been planned to hold a Conference of African Ministers of Finance in February 1986 to consider the report of the second meeting and resolve certain outstanding issues. The draft Agreement was to be prepared after the Ministerial Conference. However, since that Conference could not be convened as planned, it was decided to prepare a draft of the Articles of Agreement based on the recommendations of the second meeting of Intergovernmental Experts Group held in April 1985. Accordingly, this meeting was expected to make concrete suggestions as to what should be included in the Articles of Agreement. It was for this reason that the secretariat had requested that the delegations should include experts from the Legal Departments in addition to those from the Ministries of Finance and the Central Banks.

22. In the discussion that followed, the meeting pointed out some of the inconsistencies in the Articles of Agreement. After lengthy discussions, it was agreed that the meeting would make a preliminary review of substantive issues to be incorporated later and redrafted in a proper legal format. The revised draft should be sent to member States well in advance of the fourth meeting of experts, to be convened immediately preceding the Conference of African Ministers of Finance to be held in Libreville, Gabon, in June 1986.

23. The meeting requested that the following amendments be reflected in the revised draft:

Preamble

The preamble should be recast and shortened, and no reference should be made to the Lagos Plan of Action.

Article 1

The "Interpretation" should be deleted;

Article 2

1. Paragraph 2 (1) should stop after the word "Fund" and the rest should be deleted.

2. (a) After consideration of this term, it was suggested that the text should not be amended and that it should be referred to the Conference of Ministers of Finance. Algeria expressed reservations regarding that suggestion;

(b) The issue of non-regional participation in the Fund will be decided by the Ministerial meeting; and

(c) Similarly the participation of institutions in the Fund will be decided by the ministerial meeting.

Article 3

Paragraph 2 (a) should now read as follows:

"to promote the expansion of intra-African trade as a means of contributing to the economic and social development of African countries".

A new subparagraph 2 (a) should be introduced which would read as follows:

"to promote the stability and convertibility of African currencies".

Article 4

The functions of the Fund should relate to its objectives. Some participants were of the view that there was need to define the kind of balance of payments financing envisaged to be carried out by the Fund. To this end, it was essential to separate short-term balance-of-payments problems from those arising out of long-term structural rigidities.

In paragraph (c), first sentence, the word "goods" should be replaced by "gold".

Paragraph (e)

The management of funds entrusted to the Fund should be carefully reviewed and appropriate formulation found.

Paragraph (k)

It was also suggested that the proposed function of "guaranteeing" loans incurred by private institutions was a banking function and should be deleted from the Agreement.

Article 6

Paragraph 1 - delete third sentence starting with "They shall" and ending with "member States".

Paragraph 3 should be redrafted to reflect that both the powers provided for in subparagraphs (a) and (b) cannot be delegated, and that other powers such as the election of the Directors and their Alternates should be vested in the Board of Governors.

Subparagraphs 3 (a), (b) and (c) were inconsistent and should all be merged into one subparagraph.

Article 7

The provision concerning the possibility of changing the number of Directors (last sentence) should be deleted.

It was also suggested that the qualifications required of Directors should not be described in the Agreement, and that Alternate Directors should be elected in the same manner as Directors.

The Directors should be elected for a period of three years only.

If a Director were absent for more than 90 days (not 180 days as proposed), a successor should be appointed in accordance with established procedures.

Article 8

Paragraphs 5 and 6 should be deleted.

Article 9

The tenure of the Managing Director should be clearly defined including his reappointment.

The issue of voting powers of the Managing Director should also be clarified, e.g., whether he only can have a "casting vote" or can in fact vote in his own capacity.

Article 10

Determination of votes to be allocated to each member State should be clarified.

Article 11

Paragraph 3: Since the issue concerning the increase in authorized capital was critical, it should not be decided by a simple majority. A delegate proposed that this be decided by 85 per cent majority of the total number of votes cast.

Article 12

The issue of decision-making was important. It was proposed that the term "majority" be defined to indicate whether the agreement requires a "simple" or "qualified" majority;

Paragraph 5 should be deleted.

Article 13

Paragraph 1 to be revised to reflect the decision of the second meeting, i.e., "40 per cent of subscriptions to be paid during the first year and the balance paid over a period of four years in equal instalments of 15 per cent per annum".

The issue of the currency in which payment of subscription would be made was referred to Ministers for a decision.

Paragraph 3 should be studied and revised with respect to the issue of "irrevocable promisory notes".

Article 14

It was suggested that "borrowings" should not constitute part of the ordinary resources of the Fund.

Article 15

Paragraph 4 dealing with special funds should be deleted since such details could be provided in other rules and regulations of the Fund to be adopted later.

Articles 16-24

To be reviewed and recast taking into account the principal objectives and functions of the Fund.

Revise the respective functions of the Board of Governors and Board of Directors concerning the management of funds.

Subparagraphs (a), (b) and (c) of Article 21 should be deleted since these relate to functions of a development bank and not a monetary institution such as the Fund.

Article 26

Delete subparagraphs 1(i) and (ii).

Subparagraph 1 (iv) dealing with debt-equity ratio should be reviewed since some delegates felt that a ratio of 2:1 was too high for such an institution.

Paragraph 2 should be deleted since this would be covered in the financial regulations to be adopted by the Board of Governors.

Article 27

This should be deleted.

Article 28

This should be deleted since this was a function to be undertaken by the Board of Directors as part of the management of the Fund's resources.

Article 34

Paragraph 1 should be deleted and replaced by a new provision which should give members the right to withdraw from membership in accordance with agreed procedures.

Article 35

One delegate suggested that the majority required for the "suspension" of a member be increased to 85 per cent.

Article 41

Delete the word "judicial" in paragraph 4 and wherever the word appears throughout the agreement.

Delete paragraph 8 (iii).

Article 42

Delete paragraph 1.

Delete paragraph 3 since no decision had been reached as to whether payments of subscriptions should be accepted in national currencies.

Paragraph 6 should be redrafted taking into account similar activities carried out by existing institutions such as the African Centre for Monetary Studies.

Paragraphs 9 and 11 deal with similar issues and should be merged.

Article 46

This should be redrafted to indicate under what laws (national or international) the settlement of disputes should be envisaged.

Article 48

Paragraph 2: Delete and substitute with the following:

"This Agreement shall enter into force upon the signature of and/or ratification by thirty-five (35) regional members".

Paragraph 3: Delete the word "Directors" in the last phrase and insert the word "Governors".

Article 49

Add a new paragraph (3) to read as follows:

"The Fund shall commence its operations after at least forty (40) per cent of the subscriptions by the regional members has been paid in, and in any event, not later than eighteen (18) months after the entry into force of this Agreement".

Consideration of the progress report on the preparations for an International Conference on Africa's External Indebtedness (agenda item 6)

24. In introducing this item, the representative of the secretariat recalled the decisions of Africa's Priority Programme for Economic Recovery, 1986-1990 which was adopted by the twenty-first OAU summit, one of which was the call for an International Conference on Africa's External Indebtedness. The African Heads of State and Government expressed great concern at the mounting external debts which presently stood over $US 170 billion while it is estimated that between 1986 and 1990, African countries will spend somewhere between $US 15 and $US 24 billion annually for debt servicing. In fact, the debt service ratio as a percentage of exports of many African countries was very high and in some cases up to over 300 per cent. He referred to the seriousness of African debt situation within the context of proposals for the continent's economic programme, and stressed the urgent need for such a conference to discuss these problems. He stressed that the possibilities for organizing the conference were not certain, given the reticence of the major creditor countries. The secretariat had, however, unofficially contacted the IMF and World Bank with a view to soliciting the support of the international community for the proposed conference.

25. He informed the meeting that as a step towards the preparation of the proposed conference, a meeting of the secretariats of the Economic Commission for Africa (ECA), the Organization of African Unity (OAU), the African Development Bank (ADB) and the African Centre for Monetary Studies (ACMS) was held in Addis Ababa in December 1985 to discuss the modalities for the Conference (EDECO/MF/18/1984.85). The secretariats identified major issues relevant to such a conference such as objectives of the conference and expected results; the type and quality of documentation to be prepared; the date, venue and duration of the conference; who should be invited to participate; and the chairmanship of the conference. He stressed that the success of the proposed conference depended upon very careful preparation taking into account all these matters.

26. As a result of the inter-secretariat meeting, he said, the paper entitled "Draft outline on a paper to be prepared on issues and proposals for the International Conference on Africa's External Indebtedness" (E/ECA/OAU/TRADE/48) was being presented to this meeting for consideration. It was suggested that the paper for the proposed international conference should consist of the following three parts or sections: (a) evolution and structure of the external debt situation in Africa; (b) medium and long-term outlook of Africa's external debt 1986-2000 (with or without substantive debt relief measures); and (c) measures and approaches for solving Africa's external debt problems. Such a submission would be prepared jointly by ECA, OAU, ADB and ACMS secretariats. The purpose of the agenda item was therefore to seek the views of the experts on these issues so as to assist in the preparation of the African submission to the conference.

27. In the discussion that followed, some delegations expressed concern that the paper on this important subject had not been sent to them in advance to enable them to review it thoroughly so as to make comprehensive comments. Several pertinent suggestions were made on issues and methodology to be included in the studies on Africa's external debt. The meeting felt that because of the critical nature of the external debt problem, it was essential that the studies be of the highest quality. One delegation proposed that a number of studies be carried out to emphasize the following: (a) while a two-year moratorium of debt service payments would have negligible effect on the economies of creditor countries, it would have significant positive impact on African debtor countries; (b) solvency of African debtor countries would have a positive effect on some sectors of the economies of creditor countries; and (c) what part of Africa's debts can be directly attributed to external factors, such deterioration in terms of trade and fluctuations of major currencies. In order to succeed in bringing out their net effects, micro- and macro-economic analytical and mathematical approaches would be useful. It was generally agreed that some criteria should be established as to who should be invited to participate at the proposed international conference on Africa's external indebtedness and that multilateral creditor institutions should be included in the list of participants. This was particularly important because the credits from such institutions had not been subject to rescheduling or other forms of debt relief in the past.

28. In reply to a question on contacts with major creditors called for by the twenty-first OAU summit, the secretariat replied that contacts had been slow and difficult as a result of the rather unfavourable attitude of some major creditor countries towards the proposed international conference. The meeting was briefed that the current Chairman of OAU attaches great importance to the proposed conference. The meeting was also informed that the Executive Board of the International Monetary Fund (IMF) had already decided to use reflows from the Trust Fund resources to establish a Special Adjustment Facility, using the same eligibility criteria as those for International Development Association (IDA) credits, for countries faced with serious balance-of-payments problems.

29. At the end of its deliberations, the meeting endorsed the proposed outline of the study to be prepared for the international conference and stressed the need to ensure adequate preparations and high quality professional papers. The meeting also expressed concern at the negative attitude of some members of the international community to the proposed conference.

Any other business (agenda item 7)

30. Under this agenda item, the representative of the secretariat outlined a tentative timetable for the establishment of the proposed African Monetary Fund. He stated that taking into account the various considerations and based on experience gained in other African regional and subregional

organizations, it was not expected that the Agreement establishing the African Monetary Fund would come into force before 1 January 1988. Therefore, taking that date into account, it was proposed that following this meeting, the draft Articles of Agreement would be revised taking into account the amendments proposed. This would immediately be sent to all African countries for consideration. It was proposed to hold a two-day meeting of experts to consider the draft Articles of Agreement prior to the Conference of African Ministers of Finance to be held in Libreville, Gabon, in June 1986. After the adoption of the Articles of Agreement by the Ministers, these amendments would be incorporated in a final text to be sent to all African countries by December 1986. It was then proposed to convene a meeting of African plenipotentiaries to sign the Agreement by March/April 1987. Following that meeting, the member States would be given a period of six to nine months during which the Articles of Agreement would be ratified where applicable. It was hoped that by January 1988, the required number of signatures and ratifications would be obtained to enable the Agreement to enter into force on that date.

31. The meeting, after reviewing the proposed timetable, agreed that all efforts should be made to ensure that the Agreement establishing an African Monetary Fund should come into force on 1 January 1988. In reply to a question concerning the date of commencement of the Fund, the secretariat informed the meeting that a distinction had to be made between entering into force of the Agreement and the commencement of the operation of the Fund. It was proposed that the operations of the Fund should start only after at least 40 per cent of the subscriptions had been received by the Executive Secretary of ECA, and in any event, not later than 18 months after the date of entry into force of the Agreement. If, after that period, the required minimum subscriptions of 40 per cent were not received, the meeting agreed that the Executive Secretary of ECA should convene a meeting of all countries which had signed the Agreement to review the situation and recommend what further action needed to be taken.

Adoption of the report and closure of the meeting (agenda item 3)

32. Following the introduction of the draft report of the meeting by the Rapporteur, the meeting considered it paragraph by paragraph and adopted it with amedments.

33. A vote of thanks was moved by the representative of Kenya. She expressed gratitude on behalf of the meeting to His Excellency Paul Biya, President of the Republic of Cameroon and to the Government and people of Cameroon for the warm hospitality and excellent facilities placed at the disposal of the meeting, which contributed to its success. She also expressed appreciation to the Chairman of the meeting for the able and competent manner in which he had conducted the meeting.

34. In closing the meeting, the Chairman apologized on behalf of the Minister of Finance who was unable to be present due to other previous engagements. He warmly thanked all participants for their positive contributions to the deliberations of the meeting, and expressed the hope that they would be present at the fourth meeting of the Intergovernmental Group of Experts, to be held in Libreville, Gabon, immediately preceding the Conference of African Ministers of Finance in June 1986. He also thanked the secretariat and the technical staff for their work in servicing the meeting.